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Internal audit and oversight

UNDP: Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations for the year ended 31 December 2017. As requested by the Executive Board in its decision 2016/13, the report includes: an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNDP framework of governance, risk management and control; a concise summary of work; and the criteria that support the opinion.

The report addresses requests made by the Board in previous decisions, such as adherence to a statement of conformance with the internal audit standards; a view as to whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage; timely information on challenges in discharging oversight responsibilities; a review of recruitment procedures; and presentation of the organizational risk assessment (all listed in decision 2015/13).

The report includes: the financial losses identified by investigations, and the manner and amount of recovery (decision 2014/21); the titles of all internal audit reports issued during the year, and ratings received (decision 2013/24); and cases of fraud and actions taken in cases of misconduct (decision 2011/22).

The management response to this report is presented separately (decision 2006/13), and the annual report of the Audit and Evaluation Advisory Committee is appended to this report (DP/2008/16/Rev.1).

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express continuing support for strengthening the internal audit and investigation functions of UNDP; and (c) take note of the annual report of the Audit and Evaluation Advisory Committee.

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Annual report of the Audit and Evaluation Advisory Committee for 2017

Introduction

1. The UNDP Office of Audit and Investigations submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2017. The report also contains information in response to decisions of the Executive Board, as noted herein.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

2. The Office of Audit and Investigations aims to provide UNDP with an effective system of independent and objective internal oversight to improve the effectiveness and efficiency of UNDP operations in achieving its developmental goals and objectives. The purpose, authority and responsibility of the Office are defined in the charter approved by the Administrator. As required by the international standards of the Institute of Internal Auditors, the charter was updated and approved by the Administrator in October 2017, reflecting all activities and areas of responsibility of the Office of Audit and Investigations.

3. The *international professional practices framework* of the Institute of Internal Auditors requires that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities, and must confirm to the Executive Board, at least annually, the organizational independence of the internal audit activity.

4. The Office confirms its organizational independence. In 2017, it was free from interference in determining its audit and investigation scope, performing its work and communicating its results.

5. Starting in December 2017, the Office of Audit and Investigations introduced a statement of independence, objectivity, and impartiality that will be signed annually by audit staff as a means of certifying the adherence of staff to the code of ethics and core principles of the Institute of Internal Auditors, as well as to the UNDP code of ethics.

6. The Office has an effective quality assurance and improvement programme that covers both internal audit and investigation functions. Post-audit client surveys undertaken in 2017 showed that clients were satisfied with the conduct of audits. External quality assurance reviews are conducted every five years. The third external review for internal audit was finalized in 2017, and assigned a 'generally conforms' rating to internal audit activities of the Office – the highest rating that can be achieved. The Office took note of suggested improvements and implemented relevant recommendations.

7. The Office continued to receive strong support from UNDP senior management. The Director participated in meetings of the expanded Organizational Performance Group (with other oversight office heads), which enabled discussions on long-outstanding recommendations and other audit-related matters of significance with potential risk to UNDP. It continued to hold regular meetings with the Bureau for Management Services and regional bureaus to discuss key and recurring audit and investigation issues.

8. The Audit and Evaluation Advisory Committee, an external independent oversight body of UNDP, continued to provide advice to the Administrator on maximizing the effectiveness of UNDP internal audit and investigation functions. In 2017, the Committee reviewed the 2017 annual work plan of the Office and its implementation through quarterly progress reports. The Committee reviewed audit and investigation activities in the 2016 annual report presented to the Executive Board in 2017. In accordance with its terms of reference, the Committee held private sessions with the Director of the Office during each of its periodic meetings in 2017.

Coordination with external auditors

9. UNDP external auditors (the United Nations Board of Auditors) continued to rely on audits of the Office of Audit and Investigations and its quality assurance review processes for third-party audits[1] of projects implemented by non-governmental organizations or national governments.

Basis for providing independent assurance to the Administrator

10. To provide assurance on governance, risk management and control, the annual work plan of the Office for 2017 covered the appropriate combination of business units, functions and activities at the headquarters, regional and country levels; directly implemented projects; and grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund). Following its review by the Audit and Evaluation Advisory Committee, the 2017 annual work plan was approved by the Administrator.

Organizational risk assessment for annual work planning (decision 2015/13)

11. The Office of Audit and Investigations formulated the 2017 audit plan after conducting a comprehensive risk assessment of its auditable areas in UNDP as a whole. The Office undertook the planning process in a participative manner, holding a series of discussions with senior management and heads of concerned bureaus that were informed by the results from risk assessment models. It consulted the United Nations Board of Auditors to ensure proper audit coverage of UNDP and to minimize duplication of efforts in providing assurance to the Administrator and the Executive Board.

12. The risk assessment methodology covered the risk assessment process, from risk identification to risk measurement and risk ranking. Both quantitative and qualitative risk indicators were used – classified as strategic, contextual, political, operational or financial – in line with the UNDP enterprise risk management categories of risks. The final risk ranking, which determines the frequency of audits, may be adjusted after consultation with management. Generally, entities ranked 'very high risk' are audited every two years, those ranked 'high risk' every three years, 'medium risk' every four to five years, and 'low risk' every five to six years.

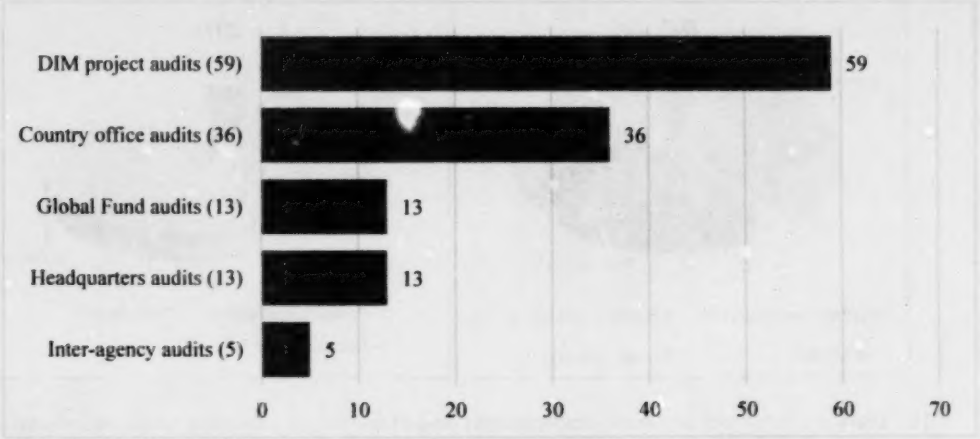
Audit reports issued

13. In 2017, the Office issued 126 audit reports: 13 headquarters audits; 36 country office audits; 13 Global Fund audits (including three consolidated reports); 59 audits of directly implemented projects (eight of which pertain to UNCDF); and five inter-agency audits (see figure 1). In accordance with decision 2013/24, annex 2 presents the titles and ratings of all the internal audit reports issued in 2017.

14. Considering that most of the audit reports issued in 2017 covered activities of UNDP offices during 2016, the audit results generally reflected the status of programmes and operations in 2016. The 108 country-level audits (country office audits, directly implemented project audits, and Global Fund audits) covered about $3.1 billion (63 per cent) of approximately $4.9 billion of UNDP field-level expenditures. An additional $1.4 billion in expenditures was covered by third-party audits of non-governmental organization and nationally implemented projects.

[1] "Third-party audits" refers to audits that are conducted neither by nor on behalf of the Office of Audit and Investigations. The audits of projects implemented by non-governmental organizations and national governments are conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices.

Figure 1. Number and type of audit reports issued in 2017



DIM = Directly implemented

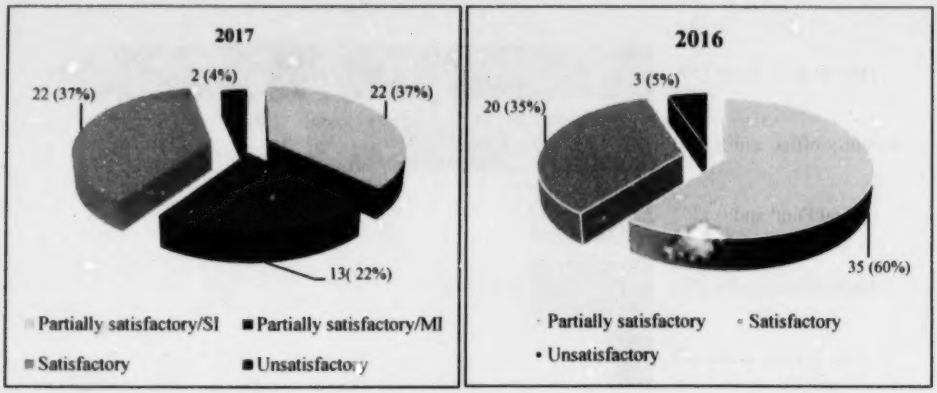
Audit ratings

15. Based on audit results, the Office assigns an audit rating for the majority of its reports that reflects the adequacy and effectiveness of the governance, risk management and control processes at the audited-entity level. Exceptions include follow-up audits, solely financial audits of directly implemented projects, and consolidated reports of several audits.

16. In 2017, the Office introduced an expanded four-scale rating that replaced the previous three-scale rating. This was the result of a recommendation made in the 2016 United Nations Representatives of Internal Audit Services meeting, aiming at harmonizing the entity-level ratings among United Nations organizations. The main difference is that the 'partially satisfactory' rating is now split into two categories, namely: 'partially satisfactory/some improvement needed' and 'partially satisfactory/major improvement needed'. The new distribution of ratings was received positively by UNDP senior management.

17. Of the 126 reports, 67 did not contain an overall rating. Of the remaining 59 reports, 22 (37 per cent) had a 'satisfactory' rating; 22 (37 per cent) had a 'partially satisfactory/some improvement needed' rating; 13 (22 per cent) had a 'partially satisfactory/major improvement needed' rating and two (3 per cent) an 'unsatisfactory' rating (see figure 2). The comparison of the distribution of audit ratings in 2017 with that of 2016 shows a slight increase in 'satisfactory' ratings, a slight decrease in 'unsatisfactory' ratings (by 1 per cent), and a combined figure of 59 per cent in the 'partially satisfactory' category, which is similar with the one reported in 2016, the only difference being that ratings are now presented separately in the 'partially satisfactory/some improvement needed' and 'partially satisfactory/major improvement needed' sub-categories. The reports with 'unsatisfactory' ratings pertained to one inter-agency audit and one Global Fund audit.

Figure 2. Comparison of audit ratings (2017 versus 2016)



18. There are two types of directly implemented project audits: (a) a financial audit, encompassing statements of project expenditure, fixed assets and cash; and (b) a combined financial audit and audit of internal control systems. Those that are solely financial, and are performed by audit firms, result in an audit opinion on expenditure, assets and, where applicable, cash-at-hand. These financial audits do not entail the use of the audit rating defined by the Office. Of the 59 such audits (57 financial audits and two combined financial and internal control system audits) undertaken in 2017, 51 pertained to directly implemented UNDP projects and eight to directly implemented UNCDF-related projects. Out of the 59 audits of expenditure, the audit firms issued 52 unqualified, six qualified, and one adverse opinion on the statements of project expenditures. The net financial misstatement reported for the projects with qualified and adverse opinions was $13.9 million (2.8 per cent of the total audited expenditure of $503.8 million). The 40 audits of statements on fixed assets resulted in 35 unqualified opinions, four qualified opinions and one disclaimer of opinion. The net financial misstatement of the qualified and disclaimer opinions was $6.3 million (55 per cent of the total audited asset value of $11.4 million).

II. Disclosure of internal audit reports

19. In 2017, UNDP publicly disclosed 126 internal audit reports, one of which was withheld and three of which were partially redacted because they contained sensitive information (http://audit-public-disclosure.undp.org). There were 6,951 visits to the disclosure webpage, markedly higher than the 4,710 visits in 2016.

20. In accordance with decision 2011/23, the Office hereby informs the Executive Board that no request was received in 2017 for access to non-disclosed audit reports prior to 1 December 2012, when the disclosure policy for internal audit reports was implemented pursuant to decision 2012/8.

III. Staffing and budget

21. As of 31 December 2017, the Office had a total of 82 approved posts. That figure excludes four posts funded by UN-Women and one Junior Professional Officer post.

Recruitment process

22. Of those 82 posts, 78 were encumbered and four were vacant by the end of 2017. Recruitment for the four vacant posts had been completed by 31 December 2017; they were expected to be filled during the first quarter of 2018. In 2017, on a quarterly basis, the Office monitored its vacancy rate and the average number of months that staff positions had remained vacant. It attained an overall

vacancy rate of 5 per cent against a self-defined level of 7 per cent, and achieved an average rate of 4.6 months for a post to be encumbered, against an accepted period of six months.

Budget

23. In 2017, the Office had an overall approved budget of $17.2 million funded from core and other resources (see figure 3). In addition, the Office received $1.1 million for the audit and investigation of UNDP activities funded by Global Fund grants. This Global Fund allocation covers the funding of staff and operating costs for three Audit Specialist positions based in Dakar, Istanbul and Pretoria, and one Investigation Adviser position based in New York.

24. In addition, a total of approximately $1 million in direct audit costs was charged to the respective budgets of each directly implemented project audited in 2017.

Figure 3. Resources in 2017, excluding Global Fund

	$ millions
Audit	9.4
Investigations	6.1
Management and support	1.6
Audit and Evaluation Advisory Committee	0.1
Total	**17.2**

IV. Significant internal audit results

A. Headquarters audits

25. The Office performed 13 headquarters audits in 2017.

26. The audit of the Regional Bureau for Asia and the Pacific raised recommendations aimed at improving the oversight of the regional programme and projects, the clustering of country office operations, and the tracking of operational support provided to country offices.

27. The audit of UNDP resource mobilization management identified the need for greater organization-wide coordination; a clearer governance structure; and the development of funding-window-specific resource mobilization strategies. It concluded that while the assessed governance arrangements, risk management practices and controls were generally established and functioning, further improvement was needed.

28. The audit of the UNDP e-tendering system recommended actions to move forward with the roll-out of the e-tendering business process and correct weaknesses in its design and implementation. Two information and communication technology audits (OneICTbox and UNDP identity management) resulted in ratings of 'satisfactory' and 'partially satisfactory/some improvement needed', respectively. The identity management audit recommended improvements in the creation of user identifiers, and implementation of a trusted source for identity verification.

29. Two follow-up audits addressed the United Nations Office for South-South Cooperation and vendor management audits. In each case, significant progress was noted in the implementation of the recommendations raised in the initial audits by the Office.

30. The 13 headquarters audit reports resulted in 48 recommendations, 11 of which (23 per cent) were ranked 'high priority'.

B. Country office audits

31. The 36 country office audit reports issued in 2017 included 35 audits of general scope and one follow-up to a prior-year audit that had resulted in an 'unsatisfactory' rating. Figure 4 contains significant issues (recurrent in at least five offices) grouped by audit area or sub-area.

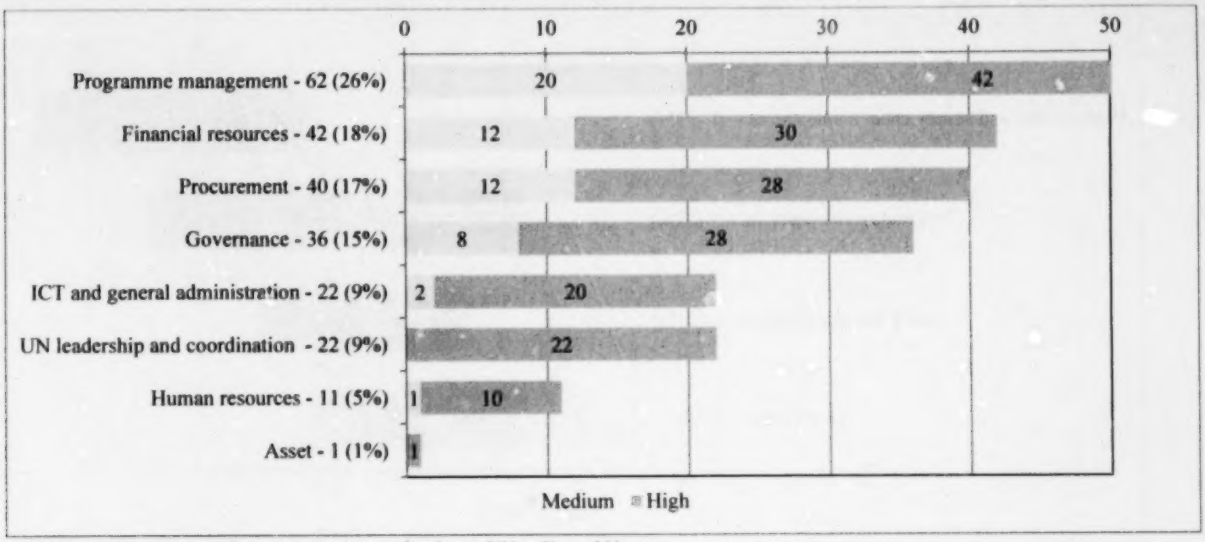
Figure 4. Recurrent country office audit issues

Audit area or sub-area	Recurrent audit issues
Programme and project management	Insufficient programme/project monitoring, such as not maintaining up-to-date risk logs, not regularly conducting field monitoring, delayed project closures, and not establishing an overall monitoring framework (21 offices)* Delays in closing completed projects in the Atlas system (6 offices)*
Procurement	Inadequate controls in procurement processes, such as weak procurement planning, inadequate management of receipt of offers, and not raising e-requisitions in Atlas (22 offices)* Weak management of individual contracts, including inadequately justified use of direct contracting in accordance with the UNDP policy that identifies specific instances for its use, and inadequate monitoring of deliverables and payments (9 offices) Weak management of vendors, such as inadequate verification of vendor information in Atlas or inaccurate vendor profiles (6 offices)
United Nations leadership and coordination	Harmonized approach to cash transfers not fully implemented (16 offices)*
Financial management	Inadequate controls in handling payments and recording transactions in Atlas, including payment cancellations (11 offices) Weak management of cash such as the lack of monitoring of cash advances and the lack of appointment of cash custodians (8 offices)* Inadequate implementation of direct project costing (7 offices)
Governance	Outstanding government contributions to local office costs (6 offices) Weak risk management, such as not systematically assessing, documenting, and mitigating risks (6 offices) Weak organizational structure, such as unclear roles and responsibilities and reporting lines (5 offices)
ICT and general administrative management	Weak asset management, such as not maintaining a complete and up-to-date inventory (5 offices) Weak travel management, such as not ensuring itineraries with most direct and economical routes, and not submitting travel claims in a timely manner (6 offices)*

* *Issues also recurrent in 2016.*

32. The above audits resulted in 236 recommendations, 55 (23 per cent) of which were rated 'high priority' (see figure 5, below). Figure 5 is a thematic breakdown of the recommendations.

Figure 5. Distribution and prioritization of country office audit recommendations in 2017 reports



ICT = Information and communication technology; UN = United Nations

C. Global Fund audits

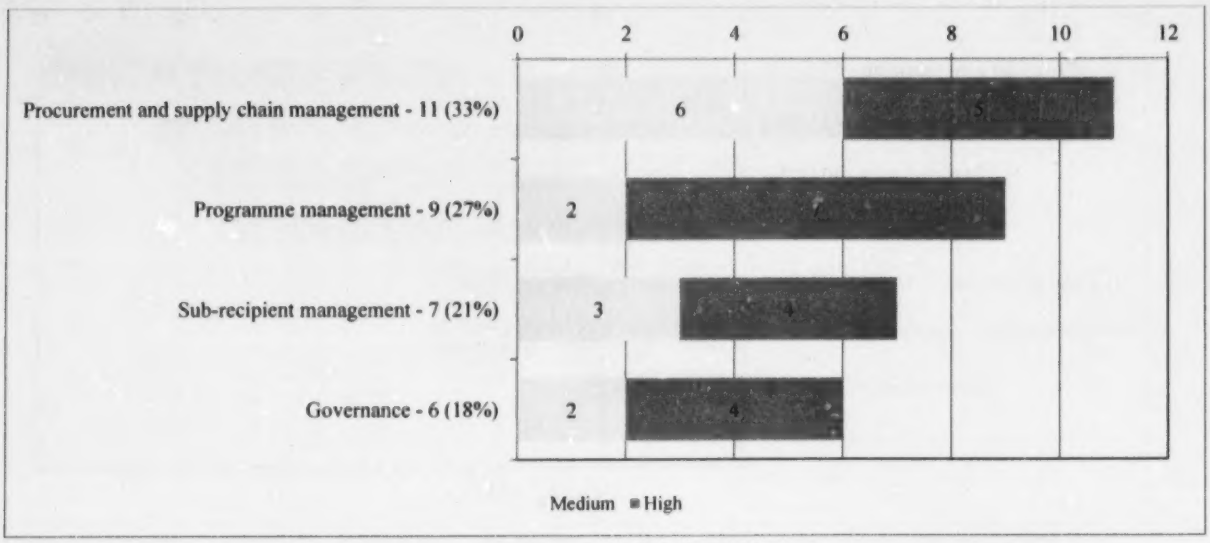
33. The Office issued 13 Global Fund audit reports in 2017. They covered the management of Global Fund grants in 10 country offices (three in Africa, four in the Arab States, one in Latin America and the Caribbean, and two in the Asia and the Pacific region). Figure 6 enumerates significant issues (recurrent in at least four offices) grouped by audit area or sub-area.

Figure 6. Recurrent Global Fund audit issues

Audit area/sub-area	Recurrent audit issues
Project management, monitoring and evaluation	Weaknesses in project management, such as not conducting monitoring and evaluation activities (5 offices)
Sub-recipient management	Weaknesses in sub-recipient management, such as delays in liquidating advances and delays in submitting quarterly reports (5 offices)
Procurement and supply-chain management	Lack of controls in storing pharmaceutical products, conducting quality control testing, and monitoring stock levels (4 offices)

34. The 13 audit reports related to grants managed by UNDP as principal recipient contained 33 recommendations (see figure 7), the majority (60 per cent) of which were in the areas of: (a) procurement and supply chain management; and (b) programme management. The significant issues are grouped, according to audit area, in figure 7.

Figure 7. Distribution and prioritization of Global Fund audit recommendations in 2017 reports

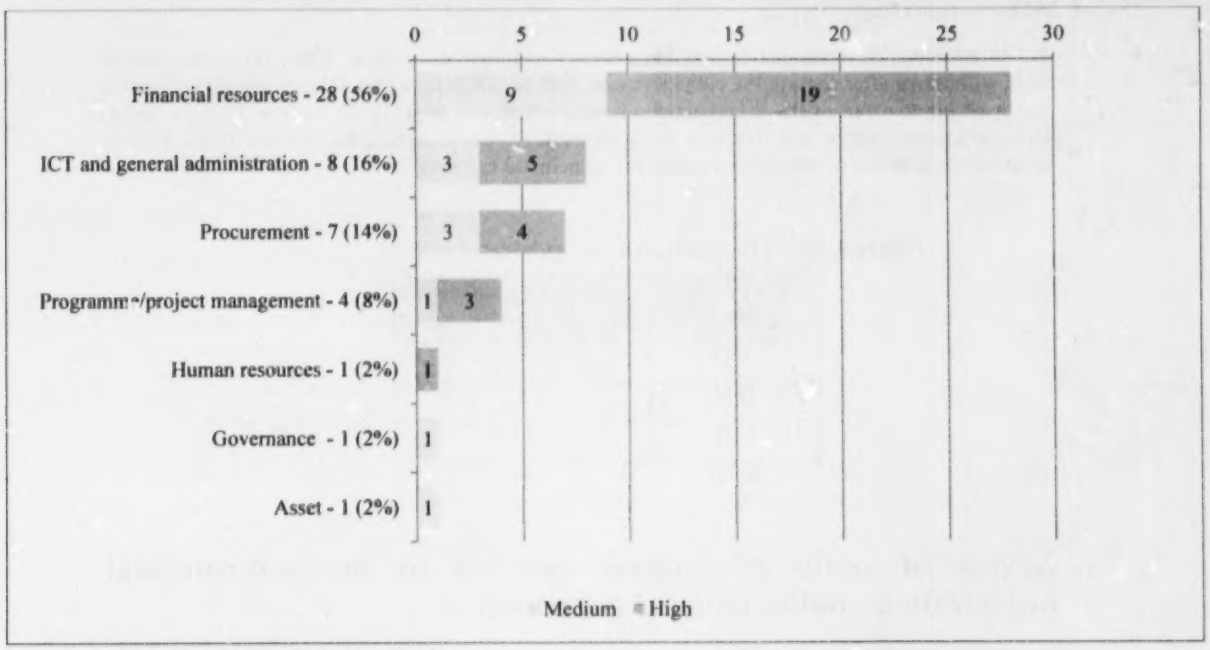


D. Project audits

35. Projects directly implemented by UNDP can be reviewed as part of the audit of an office or can be audited separately, especially if the project expenditure is significant or presents high risks. In 2017, 59 directly implemented projects were audited separately, with a total audited expenditure amounting to $503.8 million. Out of these, 51 were directly implemented by UNDP and amounted to $476.7 million. The remaining eight projects, directly implemented by UNCDF, amounted to $27.1 million.

36. Audits of directly implemented projects resulted in 50 recommendations (see figure 8), with a significant number of recommendations (56 per cent) in the area of financial resources management, such as inaccurate recording and a lack of supporting documents to justify accounting entries. Other areas with a notable number of recommendations were project management, procurement, and asset management.

Figure 8. Distribution and prioritization of audit recommendations concerning directly implemented projects in 2017 reports



ICT = information and communication technology

E. Inter-agency audits

37. In 2017, the Office of Audit and Investigations issued five inter-agency reports resulting from joint and coordinated audit work among the internal audit services of several United Nations organizations.

38. The audit of the governance arrangements of the Sustainable Development Goals Fund identified weaknesses in internal controls and frequency of steering committee meetings, and incomplete monitoring, evaluation, and budgeting in secretariat work planning.

39. Since 2010, based on audit frameworks agreed with members of the United Nations Representatives of Internal Audit Services, the Office has issued 25 inter-agency audit reports covering selected multi-partner trust funds, 'delivering as one', and the harmonized approach to cash transfers. The experience continued to show that inter-agency audits require significantly more time to plan, conduct and report than others, owing to the need for consultations and inputs from the internal audit services and management of participating organizations.

V. Follow-up to audit recommendations

40. The overall implementation rate of audit recommendations was 92 per cent as of 31 December 2017, above the rate achieved in 2016 (87 per cent). The rate covered all reports issued by the Office from 1 January 2015 to 30 November 2017. There were six recommendations that had not been fully implemented for 18 months or more as at 31 December 2017 (see annex 3). This represents a major improvement from 2016, when 17 recommendations were outstanding for 18 months or more. Of the six recommendations, two (33 per cent) were ranked 'high priority', one of which pertained to an audit of the Legal Office, and the other to an audit of vendor management.

41. The implementation rate as of 31 December 2017 for recommendations raised in audit reports issued in 2017 was 55 per cent (at the same level as the 54 per cent reported as of 31 December 2016), indicating that immediate action was taken by management on the majority of audit issues raised by the Office.

42. In addition, 20 recommendations have been withdrawn since 2014. These recommendations were withdrawn after sharing the considerations with the Director of the Office (see figure 9). It is worth noting that out of the 20 recommendations withdrawn in total, 15 were withdrawn due to changed circumstances, and five as a result of management accepting the residual risks. A more detailed presentation of the recommendations is included in annex 3a.

Figure 9. No. of recommendations withdrawn in 2017

Year report issued	No. of recommendations
2014	1
2015	5
2016	14
Total	**20**

VI. Review of audits of projects executed by non-governmental organizations and/or national governments

43. The Office reviews annual audits of nationally implemented UNDP projects executed by non-governmental organizations or national governments. The audits for fiscal year 2016 were conducted by supreme audit institutions or audit firms engaged and managed by UNDP country offices. As of 31 December 2017, the Office had received 765 audit reports, with only one audit report still outstanding (from the UNDP office in Burundi).

Review results

44. Of the 765 reports received, the Office reviewed 352 in depth, representing $1.18 billion in expenses (84 per cent of the audited expenses). In the majority of cases, the auditors of non-governmental organization/nationally implemented projects found that financial expenses were presented fairly, and issued 'unmodified' opinions in respect of $1.36 billion (97 per cent) of the total $1.41 billion of audited expenses.

45. Review letters drawing the attention to areas requiring improvement were issued to all 100 country offices that had submitted project audit reports. Seventy-five country offices (75 per cent) received an overall 'satisfactory' rating from the Office for fiscal year 2016 compared to 72 per cent for fiscal year 2015. Twenty-two country offices (22 per cent) received 'partially satisfactory' ratings, compared to 21 per cent in 2015; and three country offices (3 per cent) received 'unsatisfactory' ratings in 2016, a decrease from the 7 per cent reported for 2015 (see figure 10, below). The overall rating encompassed four elements: (a) strength of existing internal controls; (b) timely follow up of audit recommendations; (c) compliance with audit scope requirements; and (d) timely administration of audit exercise. The 'unsatisfactory' ratings were due mainly to the materiality of the net financial misstatement, the severity of issues and observations raised in the reports, and inadequate follow-up to audit observations.

Figure 10. Results of assessment of the quality of audit reports of non-governmental organizations/nationally implemented projects

	Overall rating			
	Fiscal year 2016 (Audits conducted in 2017)		*Fiscal year 2015 (Audits conducted in 2016)*	
Rating	*Number of countries*	*%*	*Number of countries*	*%*
Satisfactory	75	75	81	72
Partially satisfactory	22	22	23	21
Unsatisfactory	3	3	8	7
Total number of country offices	100	100	112	100

Key audit issues in non-governmental organization/nationally implemented projects, and actions taken

46. The audit reports of non-governmental organization/nationally implemented projects that were reviewed in detail contained 1,411 issues, the majority of which (61 per cent) were ranked 'medium priority'. Forty-nine per cent of the issues pertained to financial management. The majority of the remaining issues pertained to procurement of goods and/or services, human resources selection and administration, and management and use of equipment/inventory.

47. The Office monitored the actions taken by country offices to implement the audit recommendations and noted that, as of 31 December 2017, 62 per cent of the 1,411 audit issues had been implemented or were no longer applicable.

Audit opinions and net financial misstatement

48. For the reports with modified opinions, the Office calculated the total net financial misstatement for fiscal year 2016 to be a net overstatement of $6.15 million, or 0.4 per cent over the total audited expenditure ($1.41 billion). The net financial misstatement resulted from modified opinions on 56 projects in 28 country offices. The qualifications were due mainly to unsupported or ineligible expenses (30 projects), or unrecorded expenses and incorrect recording of advances or expenses (12 projects).

Country offices where the harmonized approach to cash transfers (HACT) is fully implemented

49. For financial year 2016, 13 country offices (Bhutan, Cabo Verde, the Democratic Republic of the Congo, India, Indonesia, Malawi, Malaysia, Morocco, Rwanda, Samoa, Thailand, the United Republic of Tanzania, and Viet Nam) had fully transitioned to HACT and applied the corresponding assurance activities outlined in the HACT framework of February 2014 in lieu of the audits of non-governmental organization/nationally implemented projects. The HACT framework is a common operational (harmonized) framework for transferring cash to government and non-governmental implementing partners, irrespective of whether those partners work with one or multiple United Nations organizations. It is intended to serve as a simplified set of procedures on requesting, disbursing, providing assurance, and reporting on funds as a way of effectively managing risks, reducing transaction costs and promoting sustainable development in a coordinated manner.

50. As of 31 December 2017, the Office had received 109 of the 120 HACT audit reports planned, and had completed the review of 53 audit reports, which was an improvement compared to 31 December 2016, when the Office had received 30 of 49 reports planned and had completed the review of 21 audit reports. The auditors were predominantly audit firms hired by the country offices. The auditors provided 'unmodified' opinions for 42 of the 53 financial audit reports reviewed and 'modified' opinions for four other financial reports with a net financial misstatement of $156,043,

representing 7 per cent of the related audited expenses. For the seven cases where only an audit of internal controls was carried out, the auditors did not raise any major concerns.

VII. Investigations

51. During 2017, the Office opened 255 new cases and carried over 176 cases from 2016, bringing the 2017 caseload to 431.

52. The Office closed 205 of those 431 cases in 2017. At the end of 2017, 226 cases were carried over to 2018 (see figure 11).

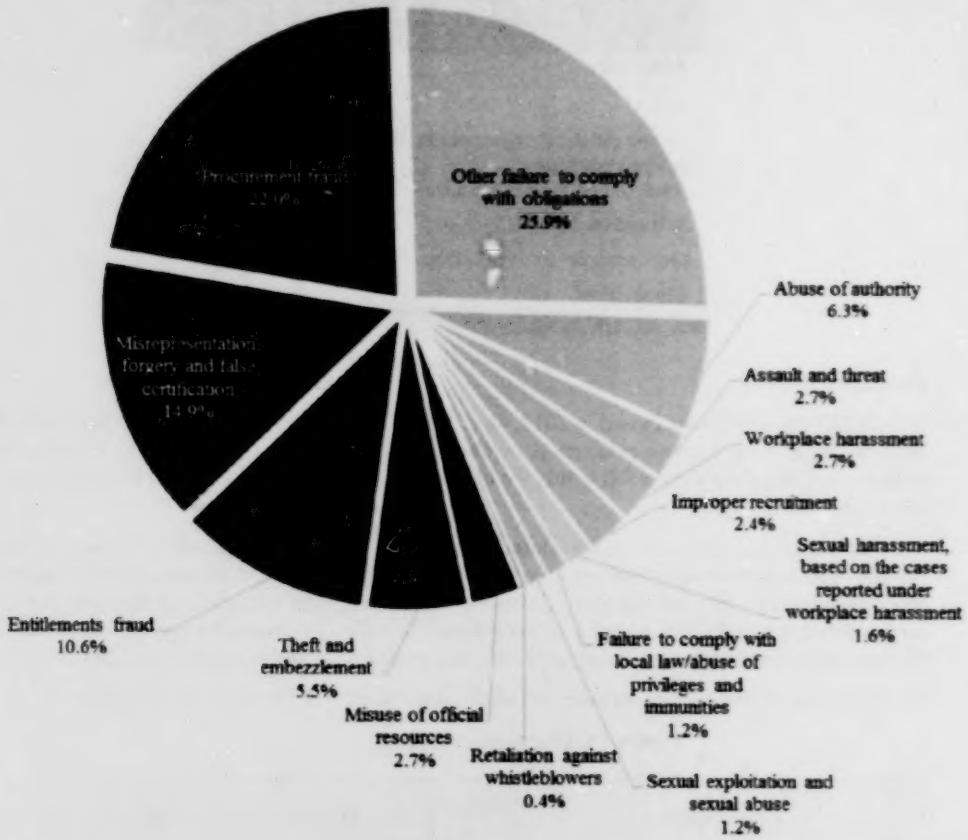
Figure 11. Office of Audit and Investigations caseload, 2016 and 2017

Caseload	2016	2017
Carry-over as of 1 January	204	176
Intake during the year	205	255
Total cases during the year	**409**	**431**
Closed (from cases carried over)	128	122
Closed (from intake)	105	83
Total closed	**233**	**205**
Carried forward as of 31 December	176	226

Types of complaints

53. Complaints relating to financial irregularities (procurement fraud; theft and embezzlement; misuse of official resources; misrepresentation, forgery and false certification; and entitlements fraud) constituted 55.7 per cent of the cases received by the Office in 2017, a slight increase compared to the 54.6 per cent recorded in 2016 (see figure 12).

Figure 12. Types of complaints received in 2017 (financial irregularity complaints in deep blue)


Other failure to comply with obligations 25.9%
Abuse of authority 6.3%
Assault and threat 2.7%
Workplace harassment 2.7%
Improper recruitment 2.4%
Sexual harassment, based on the cases reported under workplace harassment 1.6%
Failure to comply with local law/abuse of privileges and immunities 1.2%
Sexual exploitation and sexual abuse 1.2%
Retaliation against whistleblowers 0.4%
Misuse of official resources 2.7%
Theft and embezzlement 5.5%
Entitlements fraud 10.6%
Misrepresentation, forgery and false certification 14.9%
Procurement fraud 22.0%

54. Four complaints of sexual harassment were reported in 2017. In addition, one of three cases originally reported as sexual exploitation and abuse was subsequently determined to be an allegation of sexual harassment.

55. In 2017 the Office received the most complaints from the Arab States region (73 cases), followed by Africa (64 cases), Europe and the Commonwealth of Independent States (40 cases), Asia and the Pacific (30 cases) and Latin America and the Caribbean (8 cases). The Office also received seven complaints involving headquarters, 32 involving staff members or other personnel on UNDP contracts assigned to other United Nations organizations, and one involving a staff member from another United Nations organization (see figure 13).

Figure 13. Complaints received in 2017, by region

	Number of complaints received
Arab States	73
Africa	64
Europe and the Commonwealth of Independent States	40
Other United Nations organizations	33
Asia and the Pacific	30
Latin America and the Caribbean	8
Headquarters	7
Total	255

Processing of cases

56. Of 205 cases that were closed in 2017, 48 (23 per cent of the cases finalized) were closed after an initial assessment because evidence of wrongdoing was insufficient to justify an investigation; because the allegations did not fall within the mandate of the Office; or because an investigation was not warranted.

57. The remaining 157 cases were closed as a result of an investigation in which 65 cases (41 per cent) resulted in an investigation report, 63 of which established evidence of misconduct or other wrongdoing. Two investigation reports were produced, even though the allegations were not substantiated due to the procedural requirements of the office receiving the report. The remaining 92 cases were found to be unsubstantiated and were closed after investigation (see figure 14).

58. At the end of 2017, 27 cases were still under assessment and 199 under investigation.

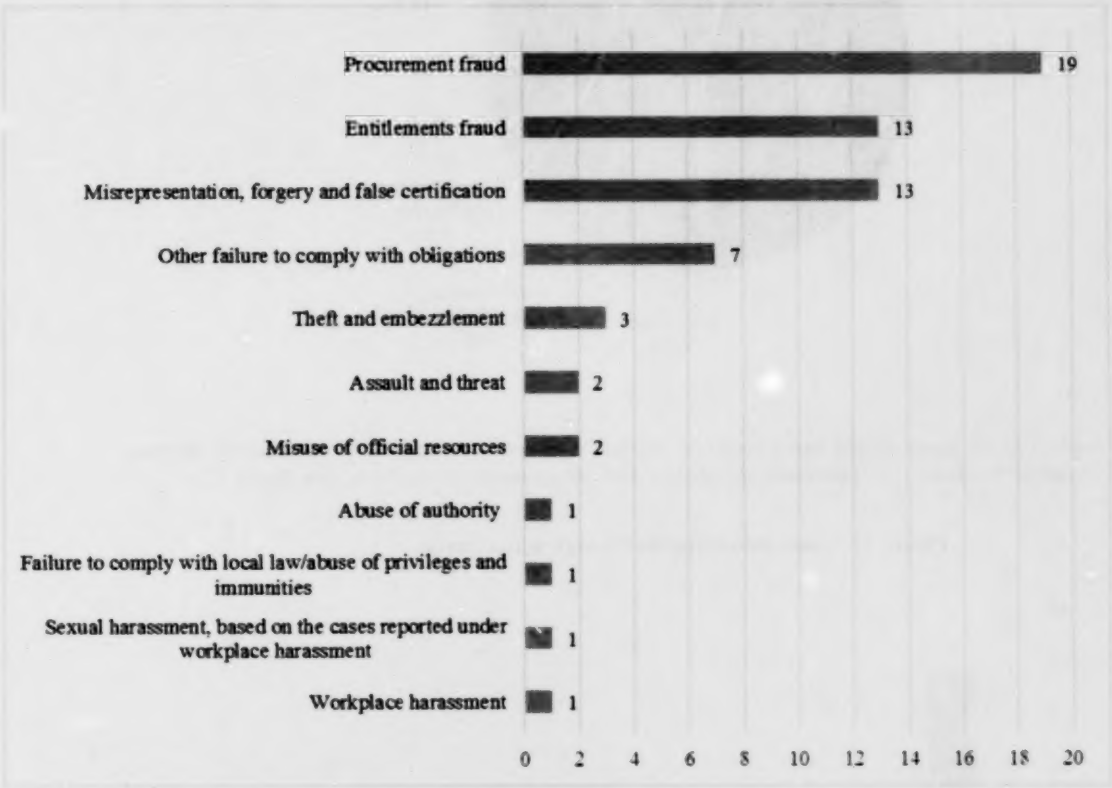
Figure 14. Disposition of cases

Actions taken	No. of cases 2016	No. of cases 2017
After assessment		
Closed, investigation not warranted	68	48
Referred to other UNDP offices	7	-
Total	75	48
After investigation		
Closed *(not substantiated)*	**92**	**94**
Closed *(substantiated)*		
- Submitted to Legal Office	23	33
- Submitted to country offices	13	11
- Submitted to Vendor Review Committee	25	17
- Submitted to other organizations	3	-
- Submitted to other UNDP offices	2	2
- Other investigation reports	-	-
Subtotal *(substantiated)*	**66**	**63**
Total cases closed after investigation	**158**	**157**
Total cases closed during the year	**233**	**205**
Investigation reports issued	**60**	**65**
Management letters issued	**15**	**15**

Substantiated cases

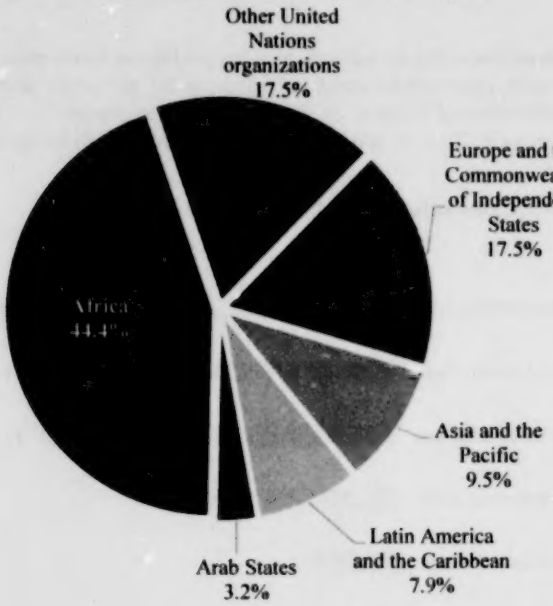
59. The misconduct identified in the 63 substantiated investigations was mainly procurement fraud (19 cases, or 30 per cent); entitlements fraud (13 cases, or 21 per cent); and misrepresentation, forgery and false certification (13 cases, or 21 per cent) (see figure 15). A summary of the substantiated investigations in 2017, by type of allegation, is included in annex 4.

Figure 15. Cases substantiated in 2017, by category



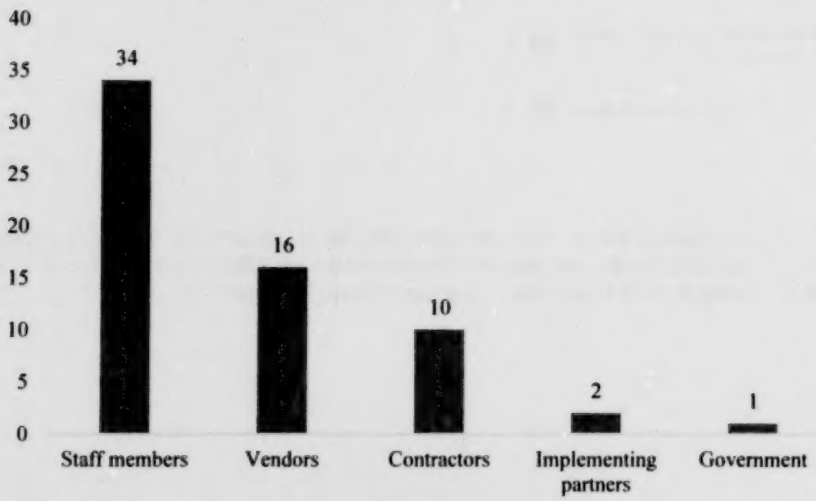
60. Of the 63 substantiated cases, 44.4 per cent (28 cases) occurred in the Africa region, 17.5 per cent (11 cases) in the Europe and the Commonwealth of Independent States region, and 17.5 per cent (11 cases) in other United Nations organizations (see figure 16).

Figure 16. Cases substantiated in 2017, by region


Other United Nations organizations 17.5%
Europe and the Commonwealth of Independent States 17.5%
Asia and the Pacific 9.5%
Latin America and the Caribbean 7.9%
Arab States 3.2%
Africa 44.4%

61. The 63 substantiated cases involved 34 staff members, 16 vendors, 10 contractors (service contract holders), two implementing partners, and one government employee (see figure 17).

Figure 17. Cases substantiated by contractual status



Management letters

62. In 2017, the Office issued 15 management letters to relevant business units to address weaknesses in internal controls, as noted in the investigations performed by the Office.

Financial loss and recovery (decisions 2014/21 and 2015/13)

63. The total financial loss for UNDP, substantiated in investigation reports from the Office during 2017, amounted to $569,358 (see annex 4). The loss related to six cases of entitlements fraud; four cases of procurement fraud; three cases of misrepresentation, forgery and false certification; one case of theft and embezzlement; one case of abuse of authority; and one case of misuse of official resources. As of the date of preparation of this report, UNDP had recovered $11,828 of the identified loss – slightly more than two per cent. In addition, approximately $2.67 million was recovered in 2017 for 12 cases reported between 2013 and 2016, and three cases for which no investigation report was issued since no UNDP personnel were involved and the matter was settled before the investigation was finalized.

64. In 2017, the Office continued to collaborate with the Bureau for Management Services on mechanisms to facilitate the recovery of losses, which included the establishment of a standing board on assets recovery and implementation of an assets tracker tool to monitor and track the recovery of physical and financial assets.

Actions taken in cases of misconduct (decision 2011/22)

65. Follow-up actions taken by other offices (the Legal Office, the United Nations Ethics Office, country offices, the Vendor Review Committee, and regional bureaus) in the cases substantiated by the Office are detailed below.

66. Based on the 33 investigation reports sent to the Legal Office concerning staff members in 2017, one staff member was dismissed and one had an agreed disciplinary measure imposed consisting of demotion of one grade without deferment of eligibility for promotion, and a fine of three months' net base salary. Pursuant to Article 72 of the legal framework, a letter was placed in the files of four staff members who had separated prior to the completion of the investigation, indicating that they would have been charged with misconduct had they remained employed with the organization. The remaining 27 reports sent to the Legal Office were still under review at the end of 2017.

67. The Office submitted one investigation report to the United Nations Ethics Office, which made its independent determination that the complainant had not suffered retaliation.

68. Of the 11 reports that the Office submitted to country offices, five service contract holders had their contracts terminated, while the contracts of two were not renewed. Two service contract holders had resigned prior to finalization of the investigation. The remaining two reports were still under review by the country offices at the end of 2017.

Other investigation reports

69. In 2017, the Office submitted 17 investigation reports to the Vendor Review Committee. One investigation report had been returned to the Office for additional evidentiary support and clarification prior to its presentation to the Committee. The remaining 16 investigation reports were still under review by the Committee at the end of 2017.

70. Two investigation reports were submitted to UNDP regional bureaus in 2017. One of these was forwarded to another United Nations organization.

71. The Office submitted to the Legal Office three requests for referrals to national authorities in 2017, for transmittal to the Office of Legal Affairs of the United Nations Secretariat. As of 31 December 2017, the Office of Legal Affairs had referred three cases to national authorities two requested by the Office in 2016 and one in 2017.

Social and environmental compliance

72. In 2017, the Social and Environmental Compliance Unit registered four new cases, for a total of six active cases, from Bosnia and Herzegovina, India, Lebanon, Malawi, Panama, and Uganda. As of 31 December 2017, the Unit had issued two final products: an informal advice note related to the India High Range Mountain Landscape project, and a formal compliance review related to the

'Business Call to Action' project. As the India case was informal, no monitoring role was contemplated. The Business Call to Action case was in its monitoring phase at the end of 2017.

73. In Guatemala, the Social and Environmental Compliance Unit participated in a joint outreach event with the independent consultation and investigation mechanism of the Inter-American Development Bank and the inspection panel of the World Bank, and conducted targeted outreach in Panama and Costa Rica. Additionally, the Unit updated its investigation guidelines; finalized a standard operating procedure for proactive investigations; participated in the annual meeting of the Independent Accountability Mechanism Network; increased the language offerings of its printed materials; and continued its 'in-reach' to UNDP country offices and management.

Other investigative activity

74. In October 2017, the Office co-hosted the annual Conference of International Investigators with the Office of Internal Oversight Services, UNFPA and the United Nations Children's Fund (UNICEF). The conference was attended by 150 participants from investigative offices throughout the United Nations system, multilateral development banks, and other organizations. It was preceded by a two-day training event and by the annual meeting of the Representatives of Investigative Services of the United Nations.

VIII. Coordination within the United Nations system

75. As a member of the United Nations Representatives of Internal Audit Services, the Director of the Office of Audit and Investigations participated in the Representatives' activities in 2017.

76. The Office continued to interact with Member States and counterparts to identify and share best practices, discuss matters of common interest, and promote cooperation with audit and investigation services in the United Nations system and other multilateral organizations. The Office is a member of the Secretariat of the Conference of International Investigators and co-organized the annual meeting of the Conference of International Investigators.

IX. Advisory and other audit services

Advisory services

77. The Office continued to provide advice to all levels of management at headquarters, regional centres and country offices. The advice covered a wide range of subjects, such as audit processes for non-governmental organization/nationally implemented projects and directly implemented projects; reporting and assessment for HACT; human resources processes; and information and communication technology policies. As requested, the Office regularly reviewed audit clauses in contribution agreements with donors.

78. In 2017, the Investigations Section continued to provide briefings to all UNDP regional bureaus and other offices, including the Bureau for Management Services, as well as to individual country offices, when required, on lessons learned from previous cases, with an emphasis on fraud prevention and early detection to mitigate the risk of fraud.

Audit and investigation services for the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)

79. Based on a two-year service agreement with the Executive Director of UN-Women that commenced in December 2015, the Office continued to provide internal audit and investigation services to UN-Women in 2017. However, following advice from the Office, UN-Women decided in 2017 to establish its own internal function, so the support of the Office to UN-Women was discontinued in December 2017.

X. Opinion

80. The Office provides independent internal oversight through internal audits on the adequacy and effectiveness of the UNDP governance, risk management and control framework.

81. The opinion of the Office is based on the audit reports issued between 1 January and 31 December 2017, the majority of which covered UNDP activities in 2016. A summary of the audit work supporting the opinion is included in chapter IV of the present report, and the supporting criteria and the methodology used to form the audit opinion are described in annex 5. The risk assessment methodology of the Office, which increases the frequency of audits of high-risk entities, is described in chapter I.

82. Based on the scope of work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of the Office of Audit and Investigations that the elements of risk management and control covered in the audit reports issued in 2017 were, in aggregate, 'satisfactory', which means that, in the majority of business units or projects audited in 2017, they were adequately established and functioning well, and that the issues identified, if any, would not significantly affect the ability of the business unit or project to achieve its targets. The 92 per cent implementation ratio of audit recommendations as at 31 December 2017 was above the target set in the UNDP integrated results and resources framework. This implementation rate confirms that, in general, appropriate and timely action is taken as and when improvements in the governance, risk and control mechanisms become necessary.